



MTN Group Limited
DATE: 29/10/2009
MTN Q3 Trading Update





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Debbie Miller

Good afternoon and thank you. This is Debbie Miller, head of investor relations for MTN Group. Thanks for joining us today to discuss MTN's release of its subscriber numbers and ARPU for the third quarter. With me here today are Phuthuma Nhleko, group President and CEO, Nazir Patel, group CFO, Sifiso Dabengwa, and group COO. Then we have the three VPs for each region, Tim Lowry from SEA, Jamal Ramadan from MENA, Christian da Faria from WECA and the CFO of MTN SA, Zunaid Bulbulia. Phuthuma will give you a brief overview of the trading performance for the quarter. No doubt you would have seen the SENS announcement. And thereafter we will move to Q&A which the conference call facilitator will arrange. Phuthuma, over to you.

Phuthuma Nhleko

Okay. Thank you very much, Debbie, and good afternoon to everybody and morning to those who are far away. It's really quite a pleasure to once again speak to you about our results, or more importantly, trade update for the third quarter which ended on the 30th September. During this quarter we increased our subscribers by 5% to approximately 103 million subscribers. At June 2009 if we look at the increase up to September it would really constitute a 19.6% increase for the year at the 108 million, which is where we are?

On a retail basis the proportion of subscriber contributions between the regions remains relatively unchanged to what the contribution was at the end of June for all three regions, with the SEA region contributing 23%, WECA region contributing 46% and the Middle East contributing 31%. Of course the main contributor in the SEA region is South Africa, and I will talk about South Africa a bit later. We did have primarily because of South Africa a muted contribution by the SEA region, which increased its subscriber base by 0.5% for the quarter. South Africa had a very challenging quarter in the sense that there was a decrease in its base. The main reason was the impact of RICA, which was implemented in earnest beginning of August this year. This obviously had quite a negative impact on gross connections. And given the impact of RICA we would hope that South Africa would end up with a zero nett addition situation at the end of the year. I mean it's still going to be challenging but that's what we would be hoping for.

MTN South Africa's ARPU increased by 1% to R138, and this was really mainly due to the negative nett connections of about 450,000 subscribers. Uganda's performance was quite strong in a very competitive market, and in Uganda we really increased the base by 11% for the quarter. MTN Zone must be one of the more innovative products that MTN has undertaken in the last few years, and having rolled that out across a number of countries, including Uganda, did I think help push up the subscriber take-up in Uganda. Today most probably about 95% of the total prepaid base in Uganda would



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be on MTN Zone. There was a slight decline in ARPU in Uganda from \$1 to \$6, and a very similar decline in local currency of about 1%.

I think in looking at the West Africa and Central Africa region that region had a 5% growth for the quarter. Again a large contribution came from Nigeria, which accounts for almost 60% of the region's subscribers. Nigeria itself increased its base by 5% to 28.7 million subscribers. And the very strong network rollout in Nigeria, refreshing the product and having new offerings, and of course as I mentioned at the end of June the [break in audio] the distribution network and channels in Nigeria really has helped quite a great deal.

Ghana also had a fairly strong quarter. They have maintained market share, notwithstanding two very strong competitors coming into the market. And they increased their subscriber base by 2.6% for the quarter. And we do expect yet another competitor to launch in Nigeria during Q4. So we will see, but we're saying that we're saying that meeting full guidance on Ghana could be a challenge depending on what a new competitor does. The ARPU in Ghana remains relatively stable. In Nigeria we also had a fairly similar situation of fairly stable ARPU when you compare to what both those operations produced in June 2009. Those ARPU numbers for Nigeria and Ghana would be \$12 and \$80 respectively. The US Dollar reported ARPU is of course now in line with local currency trends, indicating that the currencies in Ghana and Nigeria have stabilised for now.

Our third region, Middle East and North Africa, again we showed a fairly solid performance for the quarter in this region, with subscribers increasing by 9% to 20.7 million subscribers. That's 9% just for the quarter. This was largely due to growth from Iran, which has increased its base by 8%. And Iran's strong growth really can be attributed to the expanded network and increased coverage, particularly in certain parts of Tehran as well as fairly strong promotional activity.

Syria increased its base by 13%, well above expectations. And I must say you can say the same for Afghanistan as well. In fact, in Afghanistan we have gone from being the number three player in the market to really become the number one player in the market. Iran's ARPU has remained fairly stable at \$8, increasing fairly marginally in local currency. Syria I think very much the same; the ARPU has been fairly resilient.

So in conclusion we can say we have revised our nett additions guidance for the year in South Africa to zero, given the uncertainty and challenges both within the operation and the market. For Syria I did indicate that because they had exceeded expectations significantly we have revised the guidance



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	<p>in Syria to around 550,000. The other countries' individual guidance, particular for Nigeria, Ghana and Iran, that will remain unchanged. So if you really put all of that together our nett additions for the year was targeted to be 22.6 million nett additions for the whole group for the year. I'm pleased to say that that guidance will remain unchanged, and we do expect to meet that. And that's satisfactory. Thank you very much. I will pass on to Debbie and we can get some questions.</p>
Debbie Miller	<p>Can I hand over to the operator?</p>
Operator	<p>Thank you. Ladies and gentlemen, at this point in time if you would like to ask a question please press star then one on your telephone. If you decide to withdraw your question please press star then two. Our first question comes from Shaun Gardiner from Morgan Stanley. Please go ahead.</p>
Shaun Gardiner	<p>Thank you. Phuthuma, maybe you can just run through some of the challenges that the operations in South Africa is having. The second quarter there was no revenue growth. It looks like your revenues have now declined in the third quarter for South Africa. Outside of RICA, because I think you're losing some market share to Vodacom in this quarter as well, given their guidance last week. And can you just add some comments as well on profitability for the South African business? Thanks.</p>
Phuthuma Nhleko	<p>Ja, I will let Zunaid answer that question, but I should say that we have mentioned in June, if you recall that, that in the first part of the year we weren't as aggressive in promotions as we could have been relative to competition. That to some extent was exacerbated by some challenges that we had. I think we did mention that on the IT side we had certain challenges that slowed us down somewhat. And then of course RICA has hit across the board. It's not only ourselves. And I think we are now getting the momentum back. So that's really I think overall some of the issues. But I'd like Zunaid to give a bit more colour on that.</p>
Zunaid Bulbulia	<p>I think what has happened in the third quarter is that you'll see from the release that we did that the ARPU numbers in the third quarter for both prepaid and post-paid have actually improved as compared to the previous quarters. So what we are finding is that in comparison to the previous quarters our revenue performance, unlike the customer numbers performance that we've seen on prepaid in particular, the numbers have started to come back as a result of specific activities we've done, in particular in the prepaid market where we launched two new promotions which have made quite a substantial impact on our revenue generating ability in the third quarter.</p>



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Shaun Gardiner	And sorry, just on the profitability. How is that tracking for the South African business?
Zunaid Bulbulia	Can you repeat that question?
Shaun Gardiner	Sorry, on the profitability, I'm just wondering, have there been any marked changes from the trends we were seeing in the first half for EBITDA margins in South Africa, or are we on track for a seasonably better second half?
Zunaid Bulbulia	On the EBITDA side I think the guidance we can give is we are relatively flat from an EBITDA point of view. There has been no marked deterioration in the third quarter.
Shaun Gardiner	Thanks very much.
Operator	Our next question comes from Nick Kershaw from the Deutsche Bank. Please go ahead.
Nick Kershaw	Hi, good afternoon. Just a quick question really to get a sense of the impact of RICA. Can you give us an idea of what your gross adds were in July before RICA was implemented, and then what's happening in August and September from a growth adds point of view. And now in October as time has passed have you seen some improvement there?
Zunaid Bulbulia	On the RICA side what's happened is when RICA started we had quite a difficult uptake in terms of the numbers of gross connections that were coming through. Then it progressively got better as we've gone through the last two months, and October in fact has continued in the same trend. And I'm very glad to report that actually in the last two months we've actually out-connected Vodacom on the gross connections side. So we have done relatively well with regards to the gross connections within terms of RICA. And that performance we anticipate continuing for the rest of the year.
Nick Kershaw	Okay, thank you. And then just a second question. Just in Sudan, it was obviously encouraging to see that the improvement in subscribers that we saw in the second quarter has continued. Would it be fair to assume the margin improvement we saw on a sequential basis from the second half of 2008 through to the first half of 2009...? I mean has that margin improvement trend continued in Sudan as you've grown the base there?
Jamal Ramadan	We did see some slight improvement in margins coming into the quarter, but at the same time [inaudible segment] the operating costs as we roll out more coverage on the [unclear] side, especially in the south, we have absorbed some [inaudible segment] network operating costs. The margin has picked



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	<p>up, but I wouldn't say sequentially compared to the end of the year.</p>
<p>Nick Kershaw</p>	<p>Okay. And then on your nett adds, how much would be in the south versus the north for the quarter?</p>
<p>Jamal Ramadan</p>	<p>I think we'd have to come back to you on that. As you know most of our acquisitions tend to take place around [unclear] where we have the majority of our network coverage. So by definition a large majority of our acquisitions are still in that particular area. The state of our network coverage in the south is still [inaudible segment] so we're not adding much there yet. But we hope that in fact that will change as we [inaudible segment].</p>
<p>Nick Kershaw</p>	<p>Thank you.</p>
<p>Operator</p>	<p>Thank you. Just a reminder, if you would like to ask a question please press star and then one. Our next question comes from Reece Summerton from Citi Group. Please proceed.</p>
<p>Reece Summerton</p>	<p>Hi, good afternoon. I just wanted to take a step back for a second. Phuthuma, you didn't address the M&A which happened, or didn't happen, over the last couple of months. I thought maybe on this call you could outline to us broadly what kind of M&A opportunities you might be looking at going forward, and just the strategy that MTN is pursuing now after such a big transaction failed to materialise. And then from an operational point of view could you tell us what your actual churn number is in South Africa on prepaid for the third quarter? And also if you see any change in traffic trends out of Nigeria with the change of tariff from Zain. Thanks.</p>
<p>Phuthuma Nhleko</p>	<p>Okay. I will ask Zunaid to deal with the churn numbers in South Africa and then Sifiso or Christian, if he's on the line, to talk about traffic in Nigeria. But I think just to come back to the M&A issue, I think when we embarked on it we did give some background as to why we were approaching it, and also we were very clear that we wouldn't conclude a deal unless we were very comfortable on the regulatory side of things as well as the commercial terms of the deal. Something could be done that we thought could work for all parties. Now, obviously we didn't get there. And a lot of that is very much history now. I think to answer your question in terms of where do we go forward, I don't believe that the principle of saying that we would want to maintain the company as a growth company and continue to really explore markets and opportunities changes. So that certainly wouldn't change, whilst quite admittedly there is a lesser number of opportunities that one can pursue. I think secondly if we look at a profile of the group we have said consistently over the years that in an ideal situation we'd like to see a wider spread of our earnings than we sort of have today. So specifically I don't</p>



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	<p>think that changes at all, but of course the right opportunities would have to present themselves for us to explore anything. So we're not out there saying there's been impressions created that MTN has to do a deal for the sake of doing a deal. I mean there's no substance to that. We're saying that we've got certain strategic objectives that we want to fulfil over time, but it has to be the right opportunity on the right terms. So that's basically where we are on that.</p>
Reece Summerton	<p>Thanks.</p>
Sifiso Dabengwa	<p>[unclear] changes in traffic patterns. Really nothing has been noted at this stage. So it's still more or less the same as it was when we spoke last time.</p>
Reece Summerton	<p>The impact of change of tariffs from your competitors is not really being felt on your business?</p>
Sifiso Dabengwa	<p>Not at this stage. There's nothing significant at this stage.</p>
Reece Summerton	<p>Okay, great. It's just the South African churn.</p>
Zunaid Bulbulia	<p>Dealing with the South African churn issue, the annualised number for the first quarter is sitting at 59%, which is an improvement on where we were at the end of the second quarter, which was sitting at 65%.</p>
Reece Summerton	<p>Okay, thanks.</p>
Operator	<p>Thank you. Our next question comes from William Kirby from Nevsky Capital. Please go ahead.</p>
William Kirby	<p>Thanks. Just a quick question on Nigeria. What sort of marginal ARPUs are you seeing for the subscribers there? And also Etisalat seems to have become a lot more visible in the last couple of months. Are you seeing any impact from that please?</p>
Phuthuma Nhleko	<p>The marginal ARPU in Nigeria is about \$8 to \$9. I think on Etisalat, yes, they are rolling out. But as I mentioned in June when we did the June results it's fair to say that MTN Nigeria has continued to grow and consolidate its position in the market very strongly. Certainly in the capacity that we've put in the ground in the last two years has enabled us to do that. So we continue to see that strong consolidation in market share, notwithstanding that there is a new player that is rolling out.</p>
William Kirby	<p>Okay. Thank you.</p>



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Operator	Thank you. Just a reminder to all participants, if you'd like to ask a question please press star then one to join the question queue. Our next question comes from Craig Hackney of BJM. Please go ahead.
Craig Hackney	Hi, good afternoon. Could you give us a bit of an update with regards to competitive pressures if you look around the group, a sense of regions where competition is increasing significantly or perhaps regions where you see competition decreasing from where you were in June? Thank you.
Phuthuma Nhleko	Well, I think the overall picture is that even though we've had increased competition, primarily in the form of new entries, and that's true for East Africa in the case of Uganda for instance, Ghana and Nigeria and many other small countries where we've seen two or three new players coming in, by and large MTN has maintained its position. In fact I saw that in the last 12 months we went from a position where maybe 18 months ago in a place like Ghana and Uganda we lost a bit of market share to an upswing where we've actually now gained back market share. In fact Nigeria is not the only one. The same applies in Ghana and Uganda and so on. I would attribute that firstly to the significant amount of capacity we've created in those countries, and then secondly I think we have been able to make the investment whereas a lot of people have scaled back for all sorts of reasons, some of them to do with the prices that we've seen over the last 12 months and so on. And while those entrants are still there, there has been quite a scale back. So the answer to your question is yes. We've seen quite a lot. But I think we've basically gained momentum in the last 12 months.
Craig Hackney	So you're not seeing any regions where there is excessive discounting or irrational behaviour from competitors?
Phuthuma Nhleko	There will always be one or two of those. I mean we've seen huge pressure tariffs in places like Yemen; we've seen pressure tariffs in Sudan and even Rwanda. So there are those exceptions. It's not the majority. I say there are a few exceptions. But primarily because of our market share and our position in the market I think even in those few cases that I've mentioned we really have been able to weather the storm. I don't want to leave you with the impression... I'm not saying competition is not fierce. In Ghana as I've just mentioned there is yet another competitor coming in. But I think the scale of our operations, both in capacity as well as market share, put us in a fairly good position to be able to weather that competition.
Craig Hackney	Okay. Thank you very much.
Operator	Thank you. Our next question comes from Bonita from UEF [?]. Please go ahead.



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Bonita	<p>Good afternoon. My question was about your growth. When you look at your performance in local currency terms I can see that the average growth of revenue has dropped substantially in the first quarter compared to the second quarter on Euro Lira terms. In my calculations the first quarter was something like 12% growth, and the quarter before we were still above 20%. So my question is do you think it is one of impact of the economic environment overall and just competitive pressures you were mentioning, and will you have a chance to see better growth coming through in the coming quarters or is this current level sort of most likely to continue in the near future?</p>
Phuthuma Nhleko	<p>I wasn't clear whether you're referring to the ARPU decline.</p>
Bonita	<p>No, I'm taking your [unclear] and I'm recalculating the US Dollar ARPU reported into local currencies. And based on that I'm calculating local currency revenues. And then I'm weighting it amongst countries and the sort of average blended local currency growth rates in the first quarter is coming out as 12% compared to 21% in the quarter before.</p>
Phuthuma Nhleko	<p>Of course the currency issues... well, let me let Nazir respond.</p>
Nazir Patel	<p>Without going into detail I think just in terms of understanding the evolution of that, one of the primary issues to look at is minutes of use and how they are resolved. I think the big factor in terms of the quarter definitely in Dollars is a higher [inaudible segment] currency impact. So if we take all the larger markets, Nigeria, Ghana etc, with the exception of Iran, we have seen some significant volatility in the rates of the Dollar to local currencies. You've been tracking both the Naira to the Dollar and the Cedi to the Dollar. So obviously those in terms of US Dollar reported ARPU has come up quite significantly. I think in conclusion there is something that we need to go back to. Our analysis is local currency growth, especially in the larger markets, has been fairly strong. If you take Nigeria they are well in excess of that. We can maybe have a discussion at a different level without the entire group around. One thing we have seen though is with the additional competition that we talked about as well as some price pressure in the market we have seen probably not as much elasticity as we have seen in previous years. That might be a function of the fact that the [inaudible segment] with some restrictions on available consumer spending or limitations on consumer spending that has impacted somewhat in the last two quarters in terms of elasticity with the price decline. So that was the only negative impact we have seen thus far.</p>
Bonita	<p>Okay. Do you usually charge customers in local currency terms or are there</p>



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Phuthuma Nhleko	countries where you are charging in US Dollars? Always in local currency.
Bonita	Okay. Then can you give us an idea what sort of growth rate you see in Nigeria because this one based on my calculations, which of course are maybe not ideal, came down quite dramatically as well.
Debbie Miller	We don't at the quarterly period give out revenue and opex numbers other than to just reiterate what Nazir said about Nigeria. The numbers you have mentioned certainly don't sound correct.
Bonita	Okay. All right. Thank you.
Operator	Thank you. Just a final reminder to all participants, if you'd like to ask a question please press star then one to join the question queue. We have a follow-up question from Shaun Gardiner of Morgan Stanley. Please go ahead.
Shaun Gardiner	Thank you. Can you just update us on the Nigerian costs at the moment? I understand that there might be a change in fuel subsidies. It might already have taken place. And also if there is any word on what is happening on interconnect rates in Nigeria, what the regulator is thinking at the moment. Thanks.
Sifiso Dabengwa [?]	As far as interconnect rates, that's virtually an ongoing discussion. There is nothing specific that has come up as yet. The base continued internally in the sense that the 3G [unclear] generally are having difficulties in terms of their financials, so they're continuously raising the issue of interconnect. But there is nothing specific on the table at the moment. The issue of subsidies, yes, the government did raise the issue. And it seems like the proposal in terms of the implementation of subsidies has been deferred to some time next year.
Shaun Gardiner	And to round off that answer, just into South Africa [inaudible segment] Nigerian business in the third quarter that we should be aware of, any major cost items that have surprised you anyway?
Phuthuma Nhleko	Can you just repeat that last question? We missed it.
Shaun Gardiner	I was saying on the profitability in Nigeria, any many changes in the cost base in the last quarter that might affect the margins?
Phuthuma Nhleko	Not really. I mean nothing really of substance that we are aware of. And I think I should also maybe just add to Sifiso's comment on the interconnect.



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	<p>Look, close to 75% to 80% of the traffic in Nigeria is on-net. So whatever may happen with interconnect, if at all, we wouldn't really expect any [unclear].</p>
<p>Shaun Gardiner</p>	<p>Thanks.</p>
<p>Operator</p>	<p>Thank you. We have a follow-up question from Nick Kershaw of the Deutsche Bank. Please go ahead.</p>
<p>Nick Kershaw</p>	<p>Hi. Sorry, just a quick question on Syria. I mean you added 450,000 subscribers in the third quarter. Obviously to get to your guidance for 550,000 for the full year you would need to add about 89,000 in the fourth quarter. Maybe because you've grown ahead of your competition again do you think you're going to be restricted? That's the one thing. And while we're on Syria, any update on change in the licence around the current licence structure in Syria?</p>
<p>Phuthuma Nhleko</p>	<p>I think on the first question the answer is yes. It is other than being the conservative [unclear] I'd like to believe it is true that Syria is a managed market so there is a limit to how far we can gallop ahead of the competition. On your second point on the BOT, a consultant has been appointed now by government to look into how that BOT matter can be resolved, primarily with the objective of restructuring it into a normalised licence. So that is work in progress, but it's unlikely that anything will be concluded this year. We would essentially most probably look at something being concluded hopefully in the first or second quarter of next year.</p>
<p>Nick Kershaw</p>	<p>Thank you.</p>
<p>Operator</p>	<p>Thank you. Our next question comes from Reece Summerton from Citi Group. Please go ahead.</p>
<p>Reece Summerton</p>	<p>Just two follow-up ones. One is on capex. How is the rollout going? Do you see any reason to revise the guidance that you gave at the end of the second quarter or the first half, particularly in Nigeria? And also just on Iran. Obviously ARPU increased slightly in local currency. Obviously we don't have the decimals, but I think you said that on the call. I just wanted to understand what was happening there with traffic. Are you seeing traffic growth? Is that what's driving it? And also can you tell us your market share as well in Iran? Thanks.</p>
<p>Phuthuma Nhleko</p>	<p>Okay. Maybe I'll ask Sifiso to answer the question on capex overall. And I think in Iran suffice to say that I think we've got fairly low churn now. Obviously with coverage improving, particularly in certain parts of Tehran, I</p>



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	think we have seen that helping to stabilise and strengthen the ARPU. And as I say, market share has now gone up to 38%. So I think MTN IranCell has become a very established player, and we are seeing quite a bit of churn in our favour now.
Sifiso Dabengwa	As far as capex is concerned everything is on track. We are not seeing any major obstacles in terms of getting close to the guidance that we placed.
Reece Summerton	Thanks. I just wanted to go back to Iran. Where are minutes of use now compared to the second quarter?
Debbie Miller	Where are? Minutes of use?
Reece Summerton	Ja.
Debbie Miller	Minutes of use have gone up. And obviously we give out year to date outgoing numbers from June, and it was sitting around 60. They've gone up marginally up to around 62.
Reece Summerton	Brilliant. Thanks.
Phuthuma Nhleko	Thank you very much. If we can maybe take one last question and then we'd like to close it if you'll allow us.
Operator	Certainly, sir. Our last question comes from Martin Mabett [?] from Nimura Capital [?]. Please go ahead.
Martin Mabett [?]	Hi. Good afternoon. I just wanted to ask a general question on economic environment in East and West Africa. Obviously 2009 is very difficult, but what is your feeling about how things are shaping up as we get towards 2010? Do you see the big rebound that people like the IMF are forecasting?
Phuthuma Nhleko	I think not being an economist I really think we've most probably in West Africa seen the worst of the situation and most probably it is [unclear]. And then if you take key aspects of the economy in Nigeria, first of all as far as the oil price is concerned that has improved and that has helped. I think resolution of issues in the delta region has helped. You know that's an ongoing matter that's not completely resolved, but I think it will have a positive impact on the country. In the banking sector I think everybody is aware of what has happened there in terms of government stabilising that and making sure that there is considerably stability going forward. So given some of those key drivers we would expect there to be an up-tick in Nigeria. And to be quite honest in the last two years or 18 months certainly this sector has been very resilient in the country. So we would expect to see that



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	<p>improvement that you refer to. Currency obviously weakened a bit, but as I mentioned in the presentation it has stabilised. I think East Africa is very similar. We have had weakening of Ugandan Shilling and so on, but again it has stabilised and we expect that activity to pick up. Certainly if our operations are any indication it would appear that there hasn't been any major deterioration beyond what we reported at the end of June. But time will tell.</p>
Martin Mabett	Thanks very much.
Operator	We have no further questions in our question queue.
Phuthuma Nhleko	Thank you very much, and thanks for taking the time to ask us the questions. I'm sure we'll be talking again during March 2010. Thank you very much.

END OF TRANSCRIPT